

With risks developing hydra heads, companies run to cover top brass

As awareness increases, the market for directors and officers' insurance is growing at 25%

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As companies become increasingly aware of the need to insure their directors and officers (D&O) against a whole range of risks — frauds, legal challenges, and cyber attacks — the Securities and Exchange Board of India (Sebi) has exhorted the top 500 listed companies to go in protection. Many are already opting to protect their top brass against any possible liability arising from alleged wrongful or unethical acts.

Based on the recommendations of the Kotak Committee on Corporate Governance, Sebi has mandated that the top 500 companies by market capitalisation have to procure D&O insurance for independent directors, with effect from October 1, 2018. This requirement will, said Sebi, be extended to all listed entities in due course.

This is proving to be a bonanza for vendors of D&O covers which is a ₹15 billion annual market, in terms of premium income, and is growing at 25 per cent annually.

"A lot of corporates started with smaller limits initially but have, with the passage of time, understood their exposures better. And many now look to increasing their sum insured on policy renewal," says Sasikumar Adidamu, chief technical officer at Bajaj Allianz General Insurance Company.

B Vaidyanath, underwriting manager at SBI General Insurance (SBI-GI) points out that on average, private companies take a \$5 million cover while state-run enterprises avail themselves of a higher assured sum. "While insurers are pushing for rate increases, the market is unique. Despite an upward movement in the frequency of losses and the severity of risks, premium rates continue to drop by 10-15 per cent even as the average limit (of covers) has gone up by a similar margin," he says.

GROSS D&O PREMIUM INCOME

₹ mn	Apr-Aug '17	Apr-Aug '18	Change %
New India Assurance	1,781.7	2,087.1	17.14
Bajaj Allianz	1,265.7	1,774.5	40.20
ICICI Lombard	1,506.9	1,707.4	13.31
HDFC ERGO	796.3	1,047.7	31.57
Tata AIG	1,367.7	1,519.4	11.09
Oriental Insurance	489.1	535.4	9.47
Bharti Axa	112.8	152.3	35.02
Liberty General	40.9	55.9	36.67
SBI General	36.0	42.0	16.67
Total	9,907.6	11,303.9	14.09

Source: General Insurance Council

SBI-GI recently enhanced coverage under its D&O policies to include crisis management costs, counselling expenses (also psychological support), investigations, court attendance fees, and penalties which an Indian entity may face under the US' Foreign Corrupt Practices Act or the UK's Bribery Act. "Clients who have already bought policies are evaluating them for better coverage," notes Parag Gupta, chief underwriting officer, Bharti AXA General Insurance.

It's just not legacy firms which have jumped in to take such covers. As Balaji Cuddapah, president of underwriting and claims at Liberty General Insurance, points out: "Even start-ups have begun purchasing, which was not the case earlier."

Data from Marsh India shows that for pharmaceutical and information technology firms, the sum assured ranges between \$10 million and \$100 million; for those in industrial and manufacturing space, it is between \$1 million and \$200 million; and for those listed

overseas, it is between \$50 million and \$250 million.

As for banking, with its bad loan crisis which has become the subject of drawing room and television studio debates, the size of the coverage varies significantly between private and state-run banks.

"We have seen Indian banks, including state-run ones, looking to raise the limits under their existing D&O policies by up to 50 per cent since early 2018. Private banks usually go in for higher assured sums — upwards of \$70 million — while some of the larger state-run banks have smaller covers of \$250,000," says Sanjay Kedia, country head and chief executive officer, Marsh India Insurance. Kedia added that the covers are grossly inadequate as banks — mainly small private and some public banks — purchase Bankers' Blanket Bond policies where the sum assured is as low as \$250,000 and moving up to \$3 million.

"There is a growing concern about the risks that are emerging,



IN SHORT

- D&O insurance market is expected to grow by **25%**
- On average private companies take a **\$5 million** cover
- State-run banks have coverage in the range of **\$250,000–\$3 million**
- Private banks have sum assured upwards of **\$70 million**
- Gradual increase in the sum insured by **15–20%**
- Premium rates have reduced by about **15–18%**

IMAGE: ISTOCK

especially from cyber and data security across boardrooms", says Anurag Rastogi, member of the executive management at HDFC ERGO General Insurance. Certain improvements are made to the policy coverage every year — like a control group clause, mitigation costs cover, self-reporting expenses, and full policy limits for legal representation expenses incurred by an organisation.

A key structural issue with D&O insurance is that while it provides cover for the company's top brass, the rest of the management team remains outside its ambit. For example, in the case of fugitive diamond merchants Nirav Modi and Mehul Choksi's alleged fraud at Punjab National Bank, the legal costs incurred by the bank because of the impropriety of junior employees were not covered under the policy.

As India Inc reels under cases of malfeasance, you can expect the D&O business of general insurers to boom over the next few years. It makes sense to protect your name and game.